ECONOMIC INTERDEPENDENCE, AUTONOMY, AND CANADIAN/AMERICAN RELATIONS

Charles F. Doran

STUDIES IN INTERNATIONAL ECONOMICS 1

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FOREWORD

No relationship between two countries is studied more intensively and over such a broad range as that between Canada and the United States. Since its founding, the Institute has contributed to this research effort, in recent years focusing primarily on economic issues as part of its International Economics Program.

This study represents a highly innovative approach examining Canadian political and cultural autonomy on the one hand, a long-standing concern in many parts of Canada, and commercial interdependence on the other. Using largely quantitative methods, it examines several major public policy questions, including that of the impact of commercial interdependence with the United States on the capacity for Canadian cultural and political autonomy. While the findings are less than conclusive, they will be of interest to many, including both "nationalists" and "continentalists" in Canada, and those Americans interested in one of the country's most important bilateral relationships.

The Institute is pleased to have had Professor Charles Doran, currently Director of the Canadian Center of the Johns Hopkins University's School of Advanced International Studies, undertake this work. It is another product of a long-standing collaboration between this Institute and SAIS that has been of benefit to all concerned. Bringing new conceptual and methodological tools to a subject characterized occasionally by highly emotional debate, especially in Canada, is an achievement. The Institute is pleased to present this

treatment to a wider audience.

Gordon Robertson
President
June 1983

AVANT-PROPOS

Aucune relation entre deux pays ne fait l'objet d'études plus approfondies et plus diversifiées que celle entre le Canada et les États-Unis. Depuis sa création, l'Institut a collaboré à cet effort de recherche; ces dernières années, il a insisté avant tout sur les questions économiques dans le cadre de son programme sur l'économie internationale.

Cette étude est le résultat d'une approche fort innovatrice de l'examen de l'autonomie politique et culturelle du Canada d'une part, qui préoccupe de manière permanente plusieurs régions du Canada, et de l'interdépendance commerciale d'autre part. À l'aide de méthodes avant tout quantitatives, on examine plusieurs grandes questions de politique, y compris celle des répercussions de l'interdépendance commerciale entre le Canada et les États-Unis sur l'aptitude du Canada à assurer son autonomie politique et culturelle. Même si les conclusions ne sont pas tout à fait décisives, elles en intéresseront plusieurs, y compris les " nationalistes " et les " continentalistes " canadiens ainsi que les Américains qui s'intéressent à une des relations bilatérales les plus importantes de leur pays.

L'Institut se félicite que le professeur Charles Doran, actuellement directeur du Canadian Center de la School of Advanced International Studies (SAIS) de l'université Johns Hopkins, ait effectué ce travail. Il s'agit là d'un autre produit d'une collaboration de longue date entre l'Institut et la SAIS qui a profité à toutes les parties. Le fait d'aborder avec de nouveaux outils conceptuels et méthodologiques un

sujet qui fait souvent l'objet de débats fort émotifs, particulièrement au Canada, constitue une réussite. L'Institut se réjouit de pouvoir présenter les résultats de ce travail à un vaste public.

Gordon Robertson
Président
Juin 1983

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THE AUTHOR

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PREFACE

This is the first study in the field of comparative foreign policy to examine, using empirical data, some of the contentions of economic nationalist thought, heard in Canada and elsewhere, regarding the political and cultural effects of commercial interdependence. The study places these ideas in operational form so they can be rejected or sustained through statistical tests. Such examination provides additional data upon which policy judgements can be based. Although Canada is the subject of the study, conclusions drawn here have a wider significance for other polities as well.

Having completed the empirical analysis, we consider some of the implications of the findings for Canadian public policy. We attempt to point out the probable consequences of certain policy choices, but at no time do we adopt a value position regarding the "proper" or "appropriate" weight to give cultural autonomy, for example, in the overall policy framework.

Behind all of the discussion of the possible impact of U.S. commercial interdependence on Canadian society lies the question of the direction of long-term Canadian economic and political development. This study sheds light on this question in a way that may surprise some readers. Certain commonly held myths about changes in the Canadian power base are dispelled by these findings. Only by placing the discussion of Canadian capability in comparative and relative terms, as is done here, are these myths open to rigorous test.

In short, the study breaks new ground by examining in systematic

fashion some of the largest and most compelling policy questions facing Canada today. While subsequent research may contest the details of these findings, and may in some cases also suggest different policy conclusions, we are confident that the general thrust of the findings is correct. Moreover, the precedent of employing social scientific analysis to reinforce policy judgements in spheres sometimes regarded as outside the purview of systematic research may itself be of importance for the evolution of public policy formulation in Canada and elsewhere.

SUMMARY

In the context of present Canadian public and foreign policy, two major issues involve political and cultural autonomy on the one hand, and the nature of trade and commercial interdependence with the United States on the other. In this paper the two issues meet. By attempting to delineate the outline of Canadian nationalism at the theoretical level, and by attempting to operationalize and quantify the relevant independent and dependent variables at the empirical level, this study breaks new conceptual and methodological ground.

The paper asks these questions. What has happened to Canadian economic capability relative to that of the United States in the twentieth century, especially during the last decade? Has Canadian capability slipped in comparative terms, as some Canadian nationalists seem to fear, or has Canada done rather well in terms of overall growth and development? Secondly, what role, if any, has trade and commercial interdependence with the United States played in the prior outcome? Is trade and commercial interdependence irrelevant to the change in Canadian capability, or is it directly a factor, and in which direction? Finally, what is the impact of trade and commercial interdependence, if any, on the capacity for Canadian cultural and political autonomy? This latter question is very much shaped by the difficult task of defining "cultural and political autonomy" in a way that is both exact and meaningful. In each case, the independent variable in the social science sense is trade and commercial interdependence with the United States, and the dependent variable is one or the other of the

respective types of behaviour that is affected, such as the capacity for cultural and political autonomy.

In general, the findings are as follows. Canadian capability relative to that of the United States has actually increased quite markedly, especially during the 1970s. While undoubtedly regional variation would, in some instances, counter this conclusion, and while the curve is not entirely smooth with decisive annual fluctuations, the trend of increase in relative capability in the twentieth century as a whole is simply too pronounced to misconstrue.

Trade and commercial interdependence with the United States has had a positive impact on the growth of Canadian capability. This impact varies with the source of the interdependence—that is, whether foreign trade, portfolio investment, or direct foreign investment is at issue. Of course the United States also benefited from each type of interdependence. But there is no doubt that Canadian capability benefited as well.

Regarding the impact of trade and commercial interdependence on the capacity for Canadian cultural and political autonomy, the results were more mixed. By some indexes of autonomy, some damage from some types of interdependence seemed likely. But other indexes yielded quite different conclusions. What this suggests is that the nature of index construction is probably critical to judgement. But these findings also suggest that careful analysts of the interplay between commerce and culture ought to refrain from over-generalization about impacts that are inherently complex, are not easily traced, and in political terms may have the opposite of the expected effects.

The analysis concludes with a short discussion of policy implications that might flow from these findings. A strategy of capturing the efficiencies of trade and commercial interdependence while minimizing or offsetting the possible negative cultural or political consequences in specific policy areas seems to be the most plausible and prudent strategy. Surely an awareness by Canadians of their cultural and political autonomy emerges out of bargaining situations. For a variety of complicated reasons, bargaining equality is becoming

more apparent. The fact of Canadian autonomy is perhaps less in doubt now than is the perplexing question of how to make use of autonomy in the larger Canadian interest.

ABRÉGÉ

Dans le contexte des politiques intérieures et étrangères actuelles du Canada, deux grandes questions se posent au sujet de l'autonomie politique et culturelle d'une part, et de la nature de l'interdépendance en matière de commerce et d'echanges entre le Canada et les États-Unis d'autre part. Dans ce texte, les deux questions se rejoignent. En tentant de delimiter le cadre du nationalisme canadien à un niveau théorique, et de rendre opérationnelles et quantifiables les variables indépendantes et dépendantes pertinentes au niveau empirique, cet ouvrage innove en matière conceptuelle et méthodologique.

On y pose les questions suivantes : qu'est-il advenu de la capacité economique canadienne par rapport à celle des Etats-Unis au XX^{e} siècle, et particulièrement au cours de la dernière decennie? La capacité du Canada a-t-elle chuté en termes comparatifs, comme semblent le craindre certains nationalistes canadiens, ou le Canada a-t-il plutôt bien fait en termes de croissance et d'expansion globales? En deuxième lieu, quel rôle, s'il en est, l'interdépendance commerciale entre le Canada et les États-Unis a-t-elle joue par rapport à la question précédente? Se peut-il que l'interdépendance commerciale n'ait aucun rapport avec les modifications de la capacite du Canada ou s'agit-il d'un facteur direct et, si tel est le cas, quelle orientation ce facteur a-t-il imprimée? En dernier lieu, quelles sont les répercussions de l'interdépendance commerciale, si répercussions il y a, sur les possibilités d'autonomie culturelle et politique du Canada? Cette dernière question repose pour une bonne part sur la possibilité de réussir

cette tâche difficile qu'est la définition de " l'autonomie culturelle et politique ", de manière à la fois précise et pertinente. Dans chaque cas, la variable indépendante, au sens des sciences sociales, est l'interdépendance commerciale entre le Canada et les États-Unis, et la variable dépendante est l'un ou l'autre des types respectifs de comportements qu'elle affecte, tels que la possibilité d'autonomie culturelle et politique.

Dans l'ensemble, les conclusions sont les suivantes. Par rapport à celle des États-Unis, la capacité du Canada a augmenté sensiblement, surtout au cours des années 1970. Malgré des variations régionales qui peuvent sans doute, dans certains cas, démentir cette conclusion, et même si la courbe n'est pas tout à fait normale compte tenu de certaines fluctuations annuelles marquées, la tendance à l'augmentation de la capacité relative au cours du XX^{e} siècle s'avère trop prononcée pour que l'on puisse s'y tromper.

L'interdépendance en matière d'échanges et de commerce avec les États-Unis a eu une influence positive sur la croissance de la capacité canadienne. Cette influence varie selon la source de l'interdépendance — c'est-à-dire s'il s'agit de commerce extérieur, d'investissement de portefeuille ou d'investissement direct. Les États-Unis ont évidemment eux aussi profité de chacun des types d'interdépendance. Mais il ne fait aucun doute que la capacité canadienne en a profité tout autant.

Quant aux effets de l'interdépendance dans les échanges et dans le commerce sur la capacité d'autonomie culturelle et politique du Canada, les conclusions sont plus nuancées. Si l'on s'en fie à quelques indices d'autonomie, certains types d'interdépendance semblent avoir subi des dommages. Mais d'autres indices permettent de tirer des conclusions fort différentes. Cela porte à croire que la conception de la nature même des indices est probablement décisive quant à la teneur du jugement porté. Ces conclusions laissent aussi entendre que des analystes prudents des relations réciproques entre le commerce et la culture devraient éviter de généraliser à outrance au sujet de répercussions qui sont très complexes de par leur nature même, qui ne sont pas facilement identifiables et qui, en termes politiques, peuvent avoir des effets opposés à ceux que l'on attend.

L'analyse se termine par une brève discussion des implications de ces conclusions pour l'élaboration des politiques. Une stratégie visant à optimiser la rentabilité de l'interdépendance en matière d'échanges et de commerce tout en minimisant ou en compensant les conséquences culturelles ou politiques négatives possibles dans certains domaines précis semble être la plus plausible et la plus prudente. Les situations de négociation permettent certainement aux Canadiens de prendre conscience de leur autonomie culturelle et politique. L'égalité en matière de négociation devient de plus en plus apparente, et ce pour une foule de raisons complexes. C'est peut-être moins la question de l'autonomie canadienne comme telle qui se pose actuellement que celle, fort déroutante, de savoir comment faire usage de cette autonomie dans l'intérêt de l'ensemble des Canadiens.

INTRODUCTION

A sense of national identity appears essential to the maturation of the modern nation-state. Governments are legitimately concerned with the endorsement of values that reinforce price in domestic political institutions and that strengthen political unity. Canada is no exception in this regard (Underhill, 1931) and, in fact, may be one of the best contemporary examples of the societal struggle to evolve and manifest an authentic political and cultural identity.

Autonomy may reinforce the sense of national identity but no easy correlation exists between greater and greater social, political, or cultural distance between nation-states and the sense of shared identity felt and expressed by the citizens within a particular nation-state. The world is growing more independent, not less so. Just as national autonomy is less marked today, the sense of national identity is changing. National identity is the result of a blend of institutions, citizen life-styles, and values—whatever the origin—that gradually evolve internal to society. Nation-state identity does not have to be different to be authentic; it merely must be strongly and broadly accepted, whatever its character and source, by the members of the constituent society. While a national identity must not appear artificial, it can probably be shaped by governmental action, and may arise from initiatives and consciousness that are either élite or mass based. "In a great many cases in the past, and not infrequently in the present, it is the state which appears to have been the determining element in the creation of the nation, and at least on some occasions

the nationalists have had to play a significant role in bringing into being the nation whose cause they have espoused" (Emerson, 1960, p. 10). Often a national identity emerges in reaction to foreign influences regardless of whether those influences in actuality have had any bearing on the initial formulation of that identity.

Given these observations regarding the birth and maturation of a sense of nation-state identity, what are the implications for Canada regarding its capacity to manifest such an identity on political and cultural terms? Moreover, what is the impact of growing trade and commercial interdependence with the United States on the sense of Canadian-state identity? Has this interdependence undermined the sense of Canadian identity and destroyed values that foster political unity and cultural cohesion? Or has the existence of trade and commercial interdependence between Canada and the United States occurred with little transfer of political and cultural content (Stevenson, 1974), at least of content relevant to the generation of a proper sense of nation-state identity? Conversely, perhaps, the political reaction in Canada to growing trade and commercial interdependence, in some respects, is itself a useful vehicle for the emergence of a new and more vital national consciousness. Answers to these questions, while often assumed in academic and governmental discourse, are far from exhaustively researched or even thoroughly discussed either in the Canada-United States context or on a wider comparative basis.

Part of the reason for the lack of analysis is the complexity of the questions posed. The following list of confounding influences reveals something of this complexity. First, one can criticize aspects of foreign commerce and trade without maintaining that such commerce and trade is a cause of diminished national identity. A strong foreign trade orientation may, for instance, accentuate the development of export-oriented industries at the cost of import and import-substitution industries. Or the ease of access to direct foreign investment may discourage incentive to seek out portfolio investment and to develop local entrepreneurship and managerial expertise capable of using that portfolio investment. But these possible criticisms of certain types and

levels of commercial and trade interdependence have little to do with whether a strong sense of national identity emerges. One can also criticize growing interdependence in terms of the limits it places on the freedom of each government to make certain types of decisions. But such interdependence in the economic sphere need not undermine the sense of political cohesiveness or the consciousness of nation-state identity.

Secondly, without attributing this deficiency to commercial or trade interdependence, one can still ascertain and lament the lack of a strong nation-state identity. Plenty of other possible causes exist for its absence. History may never have recorded a sharp break with cultural ties, traditions, and political institutions associated with a colonial past. Local and regional loyalties—for reasons of cultural and geographic isolation—may tend to fragment nation-state identity. Most of all, the tendency of a population to look to another for its moral values, its artistic creativity, or its sense of societal purpose can be debilitating to the national character, although this has hardly been a problem for Canada relative to the United States. But one should not confuse the effects of these former considerations with the effects of trade and commercial interdependence, unless one is certain that the effects in each case are the same.

Thirdly, even if some cultural and political effects of trade and commercial interdependence are undesirable, the careful analyst and policy maker will want to be certain that before recommending a reversal or transformation of interdependence, the benefits would actually exceed the costs. In other words, an assessment of the cost-benefit ratio of interdependence in terms of political, economic, and cultural factors is mandatory. Otherwise, a society may end up obtaining greater autonomy at the cost of less growth in GNP and a lower per capita income. Unless the trade-offs are made clear to public servant and elected official alike, each can commit painful errors of judgement that would remain with the society for a long time.

Fourthly, while Marxist theorists are surely wrong that the economic "means of production" are exclusively responsible for the determination of the political "superstructure" of social values and

governing institutions, Marxists are closer to the mark when they view capital as essentially international rather than national. Capital of a certain dimension knows no borders or national affinity. All governments are viewed by multinational firms as constraints upon the efficient production of output and profits. One government is not superior in virtue to others unless it is more permissive or supportive than others. Hence when a government attempts to regulate a firm, that government cannot purchase loyalty or affection. The government can only obtain obedience to its regulations and then only to the extent that these regulations are not more demanding than the regulations other governments are seeking to impose, other aspects of the commercial or trade setting being held constant.

Finally, a major reason why foreign ownership, for example, is such an unreliable causal explanation for a lagging sense of nation-state identity is that foreign investment is such an easy target for politicization. Investment levels can fluctuate widely in a short interval; foreign investment is basically hostage to the country that accepts it. Precisely because it is "foreign," foreign investment is viewed as intrusive, different, and potentially threatening. Normally, efforts to counter it are popular electorally and are thus capable of triggering nationalism and appeals to nation-state identity. Commercial interdependence frequently becomes the stimulus to renewed nationalism and the awareness of nation-state identity.

For all these reasons, the effect of increasing trade and commercial interdependence on the sense of nation-state identity, and the capacity to sustain that identity, is not easy to theorize about or assess empirically. Not surprisingly, little careful analysis is found in social science journals regarding this very important international policy matter.

Although historically—that is, in the era of the National Policy and before—economic nationalism in Canada was regarded as the opposite of free trade (reciprocity), this dichotomy is too simple today and misses the point that to a large extent foreign investment (Levitt, 1970; Godfrey and Watkins, 1970; Gonick, 1970) has replaced trade (Brown, 1964) as the chief element against which economic nationalism

has reacted. Even more troubling is that what is described as economic nationalism may actually have little to do with nationalism in general.[1] For our purposes, economic nationalism means the strong propensity to favour financial and commercial protectionist measures, to sacrifice economic efficiency in trade terms in an attempt to obtain other objectives of a political or cultural nature, and to oppose rather than to manage commercial interdependence.

Note

1. See Appendix for a theoretical discussion of nationalism in the larger Canadian context.

Chapter 1
EXAMINING SOME THEMES OF ECONOMIC NATIONALISM

Two themes of economic nationalism are of particular interest in this essay because they involve a high degree of political content. The first is the impact that trade and commercial interdependence have on Canadian power, or on the elements of national capability that underlie that power, especially when considered relative to the power of the United States and in terms of political autonomy (Eayrs, 1964).[1] The second theme is the impact of trade and commercial interdependence (Axline et al., 1974) on Canadian cultural autonomy. We do not attempt here to summarize all of the arguments of economic nationalism but rather focus on a few assumptions underlying these themes.

"The central issue in Canadian-American relations," according to Abraham Rotstein (1973, p. 35), "turns on safeguarding the viability and political integrity of the nation-state in a situation of close and growing interdependence." In this view, as interdependence increases, the viability and integrity of the nation-state decreases. What is the linkage? The linkage is power. As American power increases, Canadian power and autonomy suffers. In The Canadian Identity, W.L. Morton (1972, p. 84) makes this fear explicit.

> What Canada really fears is not the old America, but America in its new role of world power. It fears that America in seeking to maintain its world power will make demand after demand on Canada, each reasonable in itself, until the substance of independence is modified out of existence.

The United States is viewed as ascendant, Canada aslagging far behind. As American power increases, Canada will feel the pressure of increasing demands that constrain autonomy until the "substance of independence" disappears.

Advocates of economic nationalism who are strong Marxists draw the linkage even closer between rising American power and loss of Canadian autonomy through commercial and trade interdependence.

> ...We cannot build a better society if Canada does not possess sovereign power. It is in the interest of North American capitalists to weaken the Canadian state and to limit it to the passive function of maintaining a peaceful and secure climate for investment. In contrast, it is in the interest of Canadian socialists to resist any decline in our national sovereignty...(Laxer, 1970, p. 276).

According to this view, greater power is the key, and interdependence pursued by capitalist firms on both sides of the border undermines this power. Greater Canadian governmental intervention (Laux, 1978) is defended as a strategy to offset the postulated decline in Canadian power and hence the loss of autonomy (although in actuality the ability to exercise more intervention may itself be the result of greater power). Sovereignty—that is, autonomy from external control—and power are viewed as synonymous. Presumably an increase in "sovereignty" leads to an increase in power and, vice versa, an increase in power creates at least the potential to heighten sovereignty. An increase in commercial and trade interdependence in any case, according to Marxist economic nationalists, means less Canadian sovereignty as well as less Canadian power.

The tendency on the part of nationalists to think in terms of power is evident from this quotation by Stephen Clarkson (1968, p. 258):

> Our relations with the USA are 'special' because of the disparity of our power and the degree to which we depend on American trade and capital inflows.

Foreign policy independence is lacking, in Clarkson's opinion, because of the disparity in size between Canada and the United States and because of the high degree of commercial interaction between the

two countries. If the disparity in power were less, presumably the negative effects of commercial interaction would be less disadvantageous to Canada. Or, if the degree of commercial interaction were reduced, the disparity in power might seem more tolerable. In either case, according to Clarkson, an independent foreign policy would become more feasible (although perceived as perhaps less necessary).

A number of francophone nationalists (Ouellet, 1962; Léger, 1964) seem to disregard this relationship between power (size) and autonomy (sovereignty). If Quebec nationalism is largely a "search for a fatherland," as Michel Brunet implies, then the power of the resulting entity may be less important than its degree of formal political autonomy (Brunet, 1966, p. 47). Yet as John Holmes notes, "French Canada is more likely to play a significant role in world affairs acting through a state of twenty million, than as an independent state of five million people" (Holmes, 1966, p. 218). Indeed, actions that reduce a polity's underlying capability may undermine the degree of autonomy it is able to sustain effectively, even if that autonomy is enshrined in separate bureaucracies and constitutions as long as the smaller resulting entities must rely on larger neighbours for economic well-being and must vie with them for global political influence.

While the economic nationalist argument has always admitted that the cost of less U.S. trade and capital is a lower Canadian standard of living, this cost is viewed by some as justifiable if it leads to greater political autonomy. But the more subtle political argument, expressed by Rotstein, for example, is that protectionism may lead to greater size (power) and that this greater size in turn can be used to obtain enhanced autonomy.

One of the most sophisticated accounts of the effects of nationalism—or protectionism—on Canadian society is that by John Dales. According to Dales' arguments (Dales, 1966, pp. 164-77), protectionism has had two primary economic effects:

- An increase in national income because foreign capital is encouraged to move inside tariff walls, creating jobs and sustaining immigration

- A decrease in per capita income both because resources are directed into less productive areas of the economy, resulting in lower real income, and because consumers have less choice among goods and must pay more for goods produced domestically than for those that would, in the absence of tariffs, be imported from abroad.

In other words, according to Dales, protectionism is a misplaced form of nationalism. Protectionism fosters aggregate growth at the cost of individual welfare; it enhances national power but leaves the individual citizen somewhat less well off in equity terms.

Dales also distinguishes between types of immigration effects. A policy of "all the immigration the labour market can absorb" (ibid., p. 172) promotes growth of the economy because it keeps labour costs down and expands the size of the labour market. But such an immigration policy also reduces welfare because it discourages the upgrading of the skills of the domestic labour force. It therefore slows down the increase in the standard of living of the domestic labour force. Thus, Canada's immigration policy in this view is a "Big Canada" policy that, like protectionist commercial policy, reduces the quality of life for individual citizens.

Despite the rigour of this application of economic theory to the discussion of nationalism and protectionism, the argument that supports the negative welfare effects of protectionism is much more convincing than that showing the positive impact of protectionism on the growth of national income. First, it is not at all clear that tariff protection creates greater total investment incentives, both domestic and foreign, than does freer trade. Without this tenet of the argument, one cannot assert that national income will grow more rapidly under tariff protection than without it. Foreign trade may be as good a stimulant to national income as private foreign investment. Under freer trade, a higher standard of living may create more local domestic saving and investment as well that could further support national income growth.

Secondly, the dichotomy between size and welfare appears a bit overdrawn. In a completely static environment, the difference between the effects on national income and the effects of per capita income

might be quite separable. But over substantial periods these effects become interactive. A much larger economy facilitates economies of scale, longer production runs, more competition, greater consumer choice, and hence greater efficiency and output (Wonnacott, 1975). Conversely, higher per capita incomes make larger savings possible, which in turn can be used for greater investment for opening up more jobs leading ultimately to an increase in national income. If these effects on national income and individual welfare are indeed very interactive over time, protectionism is unlikely to be able to increase one level of income while decreasing the other; protectionism may instead have a depressing effect on the rate of increase of both national income and per capita wealth.

The primary effect of protectionism (Economic Council, 1975) may be to redistribute income and investment inside Canada from the export industries to the import-substitutions industries and from regions where efficient industries abound to those where less efficient, "protected" industries are common. Protectionism may have the political impact of creating a set of east-west commercial linkages rather than north-south linkages, thus fostering a "Canadian" identity rather than a "North American" identity. But the dichotomy between national income growth and per capita income growth may be much less obvious than these other effects.

Thirdly, Dales' analysis of how commercial interaction on the one hand, and labour immigration on the other, influences national income and per capita income appears to contain an important theoretical contradiction. If freer movement of capital sustains an increase in individual welfare and per capita income, then freer movement of the other major factor of production, labour, ought to do the same. Yet Dales argues the opposite; namely, that increased importation of labour will drive down rewards to skill—that is, wages—thus reducing welfare.

Part of the reason for this mistaken conclusion is that Dales speaks in terms of the rewards to the "domestic labour force." Quite possibly the productivity of the total labour force (indigenous plus immigrant) is greater after immigration than before. Likewise the overall returns to labour will be higher after immigration than before.

According to our analysis, therefore, the impact of freer trade and movements of capital (Wright and Molot, 1976) and the impact of a rather open immigration policy ought to be similar, that is, to enhance the overall per capita income and national income of Canada. If these are its objectives, Canada's traditional immigration policy in no sense appears to be misguided. On the other hand, commercial protectionism, considered primarily in terms of the impact on national and per capita income, is much more problematic.

"It thus becomes possible to give a partial answer to the rather pointed question of the free traders as to 'how a country may be made more independent by being made poorer'. Answer: by being made larger." Rotstein (1973, p. 31) thus raises an important question. Is importation of foreign capital, which is what the National Policy, for example, facilitated, a faster way of increasing Canadian power than reliance on foreign trade? And can either form of commercial interaction actually increase national power, or, as most economic nationalists seem to argue, does commercial interaction shackle the growth of national capability and hence the potential to maximize political autonomy?

Before trying to answer these questions empirically, let us turn to the second general theme, the impact of commercial interdependence with the United States on Canadian cultural autonomy (Murray, 1977).

According to the nationalist position, commercial interaction with the United States has endangered fundamental Canadian values and the distinctness of Canadian culture. In contrast to Americans, Canadians in this view are more community minded and less career oriented. They emphasize old-world heritages, they are less materialistic and more willing to accept bureaucratic life-styles, and they accept social rank and personal eccentricity that may violate certain American notions of equality (Presthus, 1973, pp. 82-85; Lipset, 1970). For all or some of these reasons, Canadians differ from Americans socially and culturally and fear the intrusion of American life-styles and behaviour patterns.

"As long as the Canadian economy is dominated by the United States," writes Gail Dexter (1970, p. 161), "Canadian culture will be submerged." The O'Leary report (Canada, 1961, pp. 5-6) reiterates the

same point: the Canadian citizen is "exposed unceasingly to a vast network of communications which reaches to every corner of our land; American words, images and print—the good, the bad, the indifferent—batter unrelentingly at our eyes and ears." Advertising and control of marketing by U.S. firms affect life-styles and the way Canadians act and even think. Since 75 per cent of the magazines Canadians read, for example, come from U.S. publishers, it is feared that many Canadian publications, possibly including some of the best, are not likely to reach the average Canadian reader.

But the impact of trade and commercial interdependence on culture is not limited to books or films. An indictment of the university system is very clear about this.

> ...Canadian universities are becoming Americanized in direct relation to the number of US citizens present, the number of Canadians absent, and the increasing influence of Americanization in other sectors of Canadian life (Steele and Mathews, 1970, p. 176, emphasis in original).

As more and more Americans interact with Canadians and as more and more Canadian jobs at the university level in particular are held by Americans, according to this argument, the more the Canadian value-base will be eroded. The fear is that this is a continuing process whereby Canadian educational life becomes increasingly undermined. Despite the possibility that some of these teachers and scholars may eventually become Canadian citizens, the feeling that the bulk of these scholar-residents will not become Canadian citizens is buttressed by some evidence from attitude surveys.

Thus across a wide range of cultural activities, the weight of trade and commercial interdependence with the United States on Canadian cultural autonomy is perceived to be heavy. Harmful effects are felt to be continuing, the result of virtually irreversible processes. Among the most negative of these accounts is George Grant's Lament for a Nation, which asserts in effect that the Canadian national identity is doomed. Interaction with the United States has perverted it. Only massive Canadian governmental intervention can reverse this trend, a cure he asserts is unwelcome to most Canadians, even to those most

concerned about the loss of cultural and political autonomy.

Note

1. Power, defined later, may be viewed as the capacity to get another actor to do what it would not voluntarily do; capability is the material basis of that power.

In short, the nationalist position is that increasing commercial and trade interdependence seriously and necessarily limits Canadian political and cultural autonomy and therefore is to be discouraged. At this point we must define terms more precisely.

What is economic interdependence as understood by the Canadian nationalist viewpoint? Is it the control broadly exerted through foreign investment, control that is exaggerated by the high level of foreign investment in Canada? Or is interdependence better reflected in the large volume of Canadian exports and imports? But surely capital is sought abroad by most governments for investment purposes and a large volume of foreign trade is regarded as enhancing the economic vitality of the nation-state. Commercial and trade interdependence must involve more than merely the levels of foreign investment and foreign trade.

At the essence of the interdependence notion is the reality that individual governments are involved in a close economic relationship; the tighter this relationship, the greater the interdependence. The problem the economic nationalist sees is not so much that Canada experiences high levels of foreign investment and trade; the problem is that this trade and investment occurs with a single large and proximate country, the United States. According to the nationalist position, if trade and investment were diffused more widely across Europe, Japan, and the Third World, the effect of high levels of foreign investment and trade upon Canadian political and cultural autonomy would be less

intense (Sharp, 1972). This theory has in turn spawned the repeated efforts to diversify the acquisition of foreign capital and to multilateralize the basis of foreign trade. Significant interdependence at its essence, then, involves the high degree of concentration with a single trading and investment partner.

Given this awareness that the high trade and investment concentration of the United States is perceived to be at the root of Canadian political troubles, interdependence can be operationalized in terms of the concentration ratios of each principal form of economic transaction. The greater the dominance of the United States in a particular type of transaction (Reuber, 1974; Trezise, 1974), the closer the commercial and trade interdependence between Canada and the United States in this transaction and the greater the likely impact on the ability of Canada to exert an independent foreign policy posture. Concentration ratios are calculated as the percentage of a particular Canadian transaction accounted for by a single foreign country, in this case the United States.[1]

Returning to our definition, commercial and trade interdependence is that set of causal variables responsible for the alleged decline in Canadian power and autonomy. It involves the calculation of concentration ratios for the following commercial variables:

- The percentage of total direct foreign investment in Canada accounted for by the United States
- The percentage of portfolio (indirect foreign) investment in Canada accounted for by the United States
- The percentage of total Canadian exports purchased by the United States
- The percentage of total Canadian imports stemming from the United States.

Such an array of variables, so operationalized, enables us to determine what the direction (sign) of a particular commercial impact is over time using time series regression analysis. We will also be able to determine which of the variables is statistically most important and which is least so. By generalizing across all of these independent variables, we will be

able to draw conclusions about whether economic interdependence as a concept has harmed or hindered the emergence of Canadian power in the twentieth century.

Note

1. It has been suggested that the impact of the concentration ratio as a percentage of GNP be used since the "absolute value of total imports may be very small." This is a very appropriate index, and alternate test, where several cross-country comparisons involving variations across GNP size can be considerable. But the research design in the present study does not involve more than two actors. Hence GNP acts as a virtual constant here relative to the four independent variables.

Chapter 3
DEPENDENT VARIABLES

Political autonomy and cultural autonomy, the respective dependent variables in each of the tests, require additional elaboration as well. At the outset, autonomy must be distinguished from the prior concept used, that of sovereignty. Sovereignty in either the de jure or the de facto legal sense has never been at issue in the Canadian/American context. Sovereignty implies the ability on the part of a government to make decisions or to renounce decisions made by other governments but not necessarily to obtain objectives (Cooper, 1968, p. 4). Canada, for example, has the sovereign right to expand trade with Europe or Latin America while reducing trade with the United States. Canada could likewise, under the rules of international law, nationalize U.S. foreign investment provided that compensation were immediate and appropriate. Neither of these decisions would necessarily achieve larger Canadian objectives such as maximizing welfare or increasing international status and power. But the sovereign right to make such decisions is not, and cannot be, contested.

Autonomy, on the other hand, is a much more subtle notion. It implies not only the ability to make decisions that may diverge from those of another government; it implies that those decisions will result in (or have the capacity to result in) the achievement of some larger national interest or objective as well. What is important here is to determine why the objective is or is not achieved after a decision is made. Is trade diversion away from the U.S. market, for example, not possible because American financial institutions somehow prohibit

diversion, or because the natural advantages of geographic proximity, market accessibility, and huge market size are too advantageous to be ignored by Canadian exporters? And if it is these latter factors that predominate, there then is scarcely room for the contention that purposeful constraint placed on Canadian autonomy by the United States government or its institutions is largely responsible for the close trade ties between the countries.

Underlying the autonomy of the nation-state is the power or capability (Holsti, 1977) to act autonomously. According to prior empirical research, capability of the nation-state has two dimensions, a size dimension and a development dimension (Doran et al., 1974; 1979). The existence of these separate, uncorrelated clusters of variables is upheld by the use of the multivariate statistical technique, factor analysis. The size dimension is indexed by such variables as population size, size of the armed forces, territorial size, and the size of the GNP. The development dimension on the other hand is indexed primarily by per capita wealth, or by those variables that may act as surrogates for wealth generation such as technological innovation or urbanization. More powerful countries in general rank highly on the size and on the wealth dimensions. Only two governments in the present international system rank at the top of both dimensions, the Soviet Union and the United States. Canada ranks high on the wealth dimension, in part because its export of primary products significantly reinforces income from industrial output. Canada's rank on the size dimension requires more extensive discussion.

While dimensional analysis yields overall scores that reveal the capacity of governments to act, variation within dimensions can have a profound impact on governmental behaviour as well. In general, consistent rankings across several variables are likely to generate a power profile that is acceptable to the members of a governing élite and is readily interpretable by governments abroad. Such a profile is readily translated into a foreign policy role that is free of ambiguity. Inconsistent rankings are more problematic. If a government ranks high on some power variables but very low on others, tension is thought to occur because of a gap between societal aspirations and achievements

(Tomlin et al., 1978). It is sometimes difficult to reconcile different power scores in such a fashion that the members of the polity are satisfied with the foreign policy posture and status of the state (Sigler and Goresky, 1974; Lyon and Leyton-Brown, 1977). This condition is called status inconsistency (Wallace, 1973).

To some extent Canada is subject to status inconsistency. It is the second largest nation-state in the world measured in terms of territorial size. But Canada's population size places it among the small countries. Its GNP size places Canada among the seven largest economies of the non-communist world; yet despite the strategic plausibility of these levels, its level of military spending and armed forces size rank it beneath a number of the Third World countries. Even on the development dimension, Canada is both an advanced industrial nation because of the sophistication of its manufacturing sector and a developing country because of the thinness of that sector. Canada has been extremely careful not to let the consequences of status inconsistency affect its foreign policy negatively. But the tensions associated with status inconsistency may in part have aggravated some of the internal regional strains that Canada faces. Lack of certainty about foreign policy identity may in some respects have contributed to the uncertainty surrounding Canadian national identity itself.

Notwithstanding the importance of status inconsistency as a concept and condition of Canadian public life, there is very good evidence that the two basic capability dimensions, size and development, explain a significant amount of the variance in how people perceive power and how they rank nation-states in terms of power. Empirical results show that samples of university students in the United States, Japan, Finland, and Canada all are able to rank nation-states according to the respondent's own definition of power and that these rankings in turn show high agreement within and between samples of respondent opinion (Doran et al., 1974; 1979). Moreover, the two objective dimensions of capability, size and development, explain a large amount of the variance in the perceived power rankings for each of these samples. Individuals can rank states according to their own

definitions of power. These rankings are reliable within and across cultures. Objective power measures correlate highly with the perceived power rankings. Thus we believe that we are on firm theoretical and empirical ground when we speak of capability and power as interchangeable concepts (Singer et al., 1972) that have political meaning and that can be used for further analysis into the relationship between trade and commercial interdependence and Canadian political autonomy.

Capability, like autonomy, is a relative concept. No polity has complete autonomy; it only has degrees of autonomy relative to that held by other polities. Nor is capability very meaningful except in relation to that possessed by other governments (Morgenstern et al., 1973).

Based on previously published research analysing patterns of relative capability for nine industrial nations between 1815 and 1975, we have shown that capability can be indexed by the following variables:

- Iron and steel production
- Armed forces size
- Population size
- Coal and petroleum production
- Urbanization (Doran and Parsons, 1980).

These variables create no statistical problems associated with the use of monetary units such as the need for exchange-rate and inflation corrections (Fucks, 1965). They also encompass the size and development dimensions underlying the concept of power.

Important to the operationalization of each variable, however, is that each variable be treated relative to the two polities before aggregation across variables occurs. This preserves the identity of the variable as an index and eliminates problems associated with the comparability of units of measurement. Conversely, when a number of measures must be aggregated to create a single index such as with iron and steel production or energy production (Organski and Kugler, 1980, pp. 30-38), this process of aggregation ought to occur within countries first. The index will thereby accurately reflect the contributions of

separate components of the index, such as the degree to which coal or petroleum contribute to overall energy production. (Neither natural gas nor uranium were included in this index for two reasons: complete data were difficult to obtain and the data that we did obtain did not alter the nature of the resulting index.) Operationalization thus proceeded along the lines indicated in Table I.

Finally, experience with the calculation of relative capability supports the use of unitary weighting coefficients for the individual variables in the index. Experimentation with different weightings did not appreciably change the overall trend of Canadian relative capability, however. Each variable was given approximately the same range.

Theorists of "dependencia" bring together the concepts of capability and autonomy in much the same way as the theorists of economic nationalism. According to the theory of "dependencia," the concept has two components, dependence, which is the external disparity in size and power between a "metropolitan" state and a "peripheral" state, and dependency, which is the internal co-optation of élites by foreign business partners. Presumably, in the absence of external dependence, internal dependency would not operate, or at least would not be so conspicious. Similarly, Canadian economic nationalists correctly note the large disparity in size between the United States and Canada that in population terms approximates a ratio of nine to one. According to the nationalist position, if this ratio were more nearly one to one and if the disparity in overall capability were lower, Canada would be less vulnerable to the negative impact of commercial interdependence with the United States.

It is interesting to speculate upon how status inconsistency might influence the effect of commercial and trade interdependence on Canada. An initial hypothesis might be that status inconsistency weakens the capacity of a state to withstand pressures from abroad. According to this logic, the government that exercises its diplomacy with the greater self-assurance has an advantage. But in practice much probably depends upon <u>how</u> a nation-state is status inconsistent. In a situation of growing interdependence, if the country ranks high on GNP

Table 1

OPERATIONALIZATION OF CANADIAN RELATIVE POWER

P_i $_i^{th}$ power indicator, i = 1 to 5.

P_{iC} Canada's score on $_i^{th}$ power indicator at time t (calculated at five-year intervals beginning in 1900).

P_{iUS} United State's score on $_i^{th}$ power indicator at time t (calculated at five-year intervals beginning in 1900).

P_{Ci} Canada's power relative to the United States on $_i^{th}$ indicator at time t, determined by the following formula:

$$P_{Ci} = \frac{P_{iC}}{P_{iUS}} \times 100$$

P_C Canada's total relative power score at time t, namely, the average of its power relative to the Untied States on each of the five power indicators:

$$P_C = \frac{1}{5} \sum_{i=1}^{5} P_{Ci}$$

size and per capita wealth, lack of high ranks in other dimensions may be much less harmful since the country is more nearly equal in the variables that really count in the trade and commercial sphere. For example, despite the differences in military size and population, Canada and the United States are similarly important to one another in commercial terms; each is by far and away the most important single trading partner of the other. This awareness is at the core of interdependence and, for Canada, buffers the effect of some of the overall power inequality.

Thus capability and autonomy are not identical concepts. But capability is a prerequisite for autonomy. Other things being equal, governments that have the capability will probably opt for greater autonomy.[1] Indeed, one would expect that capability and autonomy are somewhat correlated; the states with larger capability would also enjoy greater autonomy in international political terms. This tendency is not always the case, especially where the preference for alliance ties (Job, 1976) or very close trading relationships counter this tendency. The key point, however, is that if a government has a degree of relative capability in its favour, it can decide for itself how much autonomy it prefers. The freedom to seek autonomy, if not the fact of greater autonomy itself, exists to a larger degree for those actors that have greater relative capability.

For the purposes of this analysis, we will examine the capability of Canada relative to the United States, suitably indexed, and the change in that relative capability, rather than the much more ambiguous notion of political autonomy itself, recognizing that increasing relative capability is a prerequisite for increasing relative autonomy.

Cultural autonomy is somewhat more easily handled because the scope of the concept is narrower than that of political autonomy. Cultural autonomy is defined as the internal development of values and means of expression by a community. Primary impetus for development stems from the community itself. Whether the emerging value-set and linguistic pattern are unique is less important than that it is indigenous, although all culture is to some extent borrowed and synthetic. The

more homogeneous the values and the means of expression, the more cohesive the community is likely to be. And the more cohesive and vital is the community, the more likely it will be able to assert its cultural autonomy.

Cultural autonomy, moreover, has an external face. Truly autonomous cultures not only flourish internally, but also have a visible impact abroad. While the spill-over effect of a vital culture is not the measure of its success, borrowing and imitation abroad are indicators of its originality and suitability outside a single polity or region. Historically, dominant cultures have either insulated themselves, or have assimilated other divergent cultures, thus enriching the core of the aggregate culture while offering to other peoples values and linguistic expression worthy of adoption or emulation.

Specific indicators of Canadian cultural autonomy exist in a number of areas. More Canadian content in programming, a greater number of Canadian films produced and books published, a better ratio of business and tourist contacts with the outside world, and a larger number of graduate students educated at home are all indicators of increased cultural autonomy. Like political autonomy or political capability, cultural autonomy probably ought to be considered in a relative sense, a sense that is qualified by the degree of cultural autonomy possible elsewhere. No community, of course, is an island bereft of all outside influence upon it. But even in the absence of the relative notion, change in the indexes of cultural autonomy in absolute terms is still an insightful indicator even when considered solely in the Canadian context.

In general, the nationalist position maintains that the overall political capability of Canada is small when compared to that of the United States and that, if anything, the ratio has worsened in recent years. According to this view, U.S. power has grown while Canadian power has either remained static or has perhaps retrogressed.[2] The net result is that Canada has become more vulnerable to alleged growing U.S. dominance.

A second argument emerging from the nationalist position is that the impact of trade and commercial interdependence has been to

undermine the capability to achieve greater political autonomy. U.S. private foreign investment is said to transfer control from local institutions to those abroad without creating greater indigenous Canadian capability to act as an autonomous international actor. Trade dominance of the United States in both import and export terms is said to limit the development of indigenous capability because the proceeds cannot be used as freely or productively as those earned through a more diverse set of trading partners. Moreover, according to this argument, in the absence of increased capability to deal with the United States politically, Canada is subject to manipulation as more and more of its total trade volume becomes tied up with U.S. production.

The third argument stemming from the nationalist position is that economic involvement with the United States (Clarkson, 1976) restricts cultural autonomy. By trading with the United States so broadly and by employing American investment capital and allowing foreign equity control, Canada encourages an erosion of cultural preferences and values. Preferences are generated by advertising and the demonstration effect. Tastes respond to trade, according to this viewpoint, rather than the opposite, as liberal economists have often maintained. In a word, Canada has allowed itself to become "Americanized" because of the increasing degree of contact and outside intrusion implied in interdependence with the United States.

We now state these arguments as a proposition and as formal hypotheses accompanied by their null equivalents:

Proposition 1 Canadian capability relative to the United States has increased.

Proposition 1' Canadian capability relative to the United States has remained static or has decreased.

Hypothesis 1 Commercial and trade interdependence with the United States has had no effect upon, or has actually contributed to, an increase in relative Canadian capability.

Hypothesis 1' Commercial and trade interdependence with the United States has hindered the increase in relative Canadian capability.

Hypothesis 2 Commercial and trade interdependence with the United States has little or no effect upon Canadian cultural autonomy.

Hypothesis 2' Commercial and trade interdependence with the United States necessarily restricts the formation of an autonomous culture.

An outline of the research design necessary to test this proposition and set of hypotheses empirically is then followed by a detailed examination of the operationalization of each independent and dependent variable used in the analysis.

Notes

1. This assumption is invalid in certain cases, particularly numerous in the present system, where growth, full employment, and increased welfare are possible only in a trade and commercial relationship that is increasingly interdependent. Where a trade-off exists between autonomy and these objectives, autonomy is frequently sacrificed.
2. This diminution in power is only in part because of the military cut-backs following the Second World War.

An initial test involves plotting a simple ratio of Canadian capability to American capability across time. The ratio of the capabilities is plotted on the y-axis; time is plotted on the x-axis. If the plot of points remains about constant across time, or if the plot trends downward, the proposition is sustained that Canadian capability has decreased relative to American capability. If, on the other hand, the plot trends upward, the null proposition cannot be rejected. Alternatively, the plots may vacillate broadly, yielding so much variance in the series that the reliability of conclusions is likely to be very low. Since the data that form the capability scores tend to follow rather smooth curves over time, however, we do not anticipate that the results will be so ambiguous.

While the index is composed of several variables, most indexes are complex aggregates. It is not all that difficult to get a handle on what a particular movement in the index as a whole means because all the variables are moving in the same direction, if at somewhat different rates, without wild perturbations. By considering movements of the index as a whole, one is able to make judgements of a more general nature; if one wants disaggregated results, individual variables can be studied in isolation. Thus the research design is set up to test an aspect of economic nationalist thought regarding the comparative base of Canadian power.

A second research design examines the impact of trade and commercial interdependence upon relative Canadian capability. The

ratio of Canadian to American capability in the prior analysis thus becomes the dependent variable in this analysis. We employ the multiple regression technique to determine whether the null hypothesis can be rejected that interdependence has no negative effect on the growth of relative capability. We would also like to know which independent variable is most responsible for positive or negative effects on capability. Further, we would also like to know whether the nationalist argument that retained earnings from private foreign investment can be ignored is correct, or whether such earnings have a multiplier effect upon Canadian relative capability. This test provides substantial additional information about the underlying causal implications of the nationalist argument beyond that of the first test.

We address the second major hypothesis regarding the impact of interdependence on cultural autonomy through a research design that is similar to the one above. Multiple regression is the format. The same basic four independent variables—the percentage share of Canadian imports from the United States, the percentage share of Canadian exports to the United States, and the percentage shares of private direct investment and portfolio investment from the United States—are used once again, but the dependent variable changes. The dependent variable is composed of indexes of books published both inside Canada or imported (that is, the dollar value suitably standardized), of U.S. border crossings, and of graduate student education abroad. Because of the way this test is designed, either rejection or acceptance of the null hypothesis yields a rather complete inventory of information on individual effects and causal priorities, all of which are relevant to a full examination of the validity of the nationalist arguments regarding cultural autonomy.

While no single indicator can possibly reflect the definition of cultural autonomy in its entirety, each of these indicators taps a separate aspect of autonomy. Book publishing reveals the magnitude of, and the change in, cultural output in one important area of cultural endeavour. This is not to say that Canadian authors do not, or should not, publish abroad. Nor is it to argue that Canadian content is impossible in books written abroad and imported for a Canadian

audience. On the other hand, an authentic expression of the Canadian identity is undoubtedly easier to write for a Canadian author than for a foreigner, and under some circumstances a Canadian publishing house may be more sympathetic to such themes and authors than a firm located abroad doing a predominant share of its business outside the country. Hence, the percentage of the Canadian book market that is Canadian and the change, if any, in that percentage over time[1] may be of considerable interest to those who favour greater cultural autonomy. A declining Canadian share of the market, or stagnation in the number of Canadian books published by Canadians, does not augur well for cultural autonomy in this area of cultural output.

Similarly, cultural autonomy in the educational area is reflected to some extent in the number and percentage of Canadian graduate students obtaining their education abroad. Most countries are proud to see many of their students obtain a foreign education. These governments would use such figures as a measure of the cosmopolitan character of the general population, or at least of the highly educated élite. On the other hand, if one is concerned about demonstrating cultural autonomy, especially vis-à-vis a much larger neighbour, then a rapidly increasing share of a country's graduates receiving their education at the institutions of the neighbouring state does not suggest autonomy. There will always be those who argue that they return home from an education abroad more nationalistic than when they left. But, in general, a large and increasing share of a nation's graduate students educated in the institutions of a neighbouring polity suggests a closeness rather than a divergence of cultural perspective between the countries.

How good an indicator of cultural autonomy is the number of graduate students, relative to the total graduate student population, who obtain a foreign education? The indicator may suffer from several shortcomings. First, the percentage of the population involved is small. Secondly, many countries we commonly understand to have very strong cultural identities send a high percentage of their graduate students abroad. Thirdly, many of these students concentrate in the physical sciences where the cultural dimension may not be as relevant. All of

these arguments warrant consideration to determine whether they are disabling.

Although the size of a country's graduate student population relative to the population as a whole will always be small, the graduate student population is not by this fact insignificant in cultural terms. On the contrary, the graduate student population (including professional students) is likely to compose a large fraction of a country's intellectual elite in the next generation. Graduate students act as the carriers and generators of much of the cultural output of the nation. They will enter positions of leadership in government, academia, and the private sector, thus shaping public opinion perhaps to a decisive extent. When such an elite receives a particular kind of education and exposure to cultural values, this educational experience is likely to condition the elite's attitudes and political outlook. Even within the English-speaking world, the effect of such cultural exposure is evident when contrasting those students who have received an English, American, or Canadian education, for example. Graduate student education is culturally sensitive precisely because it influences a small but extremely important group of individuals who will have much to do with the development of the cultural ethos of a nation in succeeding generations.

Is the index employing the number of graduate students studying abroad invalidated by the observation that some countries with strong cultural identities might also employ this pattern of foreign education? The answer is that in most cases such countries with strong cultural identities are well aware of the cultural impact on their society of graduate students' exposure to foreign ideas, values, and tastes. Even countries as culturally identifiable as Saudi Arabia and China periodically worry about the preservation of cultural authenticity. This is considered a normal cost that the society must accept in order that its younger members obtain the benefits of a foreign education. That some societies are willing to pay this cost, and that others are not, does not invalidate the index. The distinction rather tells us something about how the balance of cultural costs and educational benefits is interpreted by each country in the respective groups.

Students in the physical sciences may have less capacity to

transmit cultural values in the classroom when they become teachers or professors than students in the social sciences and humanities. But graduate students in the physical sciences will receive just as much exposure to foreign influences as others, and because the nature of their primary scholarly preoccupation does not affect them, physical science students may reflect less deeply on the consequences of these influences and may react less self-critically. All graduate students, regardless of field, however, will be influenced in terms of preferences, life-styles, manner of speech and dress, and purchasing habits whether or not they are conscious of such tendencies. Indeed, those who are less self-conscious about cultural baggage may become the most important transmitters of foreign influences once these influences become ingrained in their behaviour and attitudes.

Thus neither small student body size nor field of concentration seems to rule out the feasibility of using the fraction of graduate students educated abroad as a proper measure of one form of cultural influence. Regardless of the supposed "strength" of a nation's culture, rich nations, like poor nations, often seem to worry about safeguarding indigenous cultural values especially where elites are educated in a foreign country that is also regarded as politically dominant. Because the total graduate student experience is so important in shaping the eventual cultural outlook of élites and society—regardless of what behavioural and attitudinal direction emerges—this indicator becomes one possible measure of foreign cultural influence.

Finally, in order to tap a third dimension of cultural autonomy at an even broader level of the population, the annual number of border crossings from the United States is examined. These crossings may be very good for the tourist trade and for Canadian/American commerce in general. They may also help to educate the American public about Canada through first-hand experience. But they also undoubtedly involve a cultural impact upon the average Canadian citizen. As such contacts increase, they are bound to involve some transfer of cultural tastes and preferences. While one may favour a rapidly increasing number of such contacts on both sides of the border for a variety of reasons including greater human understanding, one can scarcely deny

that such contacts, combined with the influence of the media, tend to impinge upon Canadian cultural values. A greater number of contacts mean, just as greater foreign media exposure probably means, some loss of Canadian cultural autonomy. Hence the change in the number of U.S. border crossings is a partial way of observing the degree to which the average Canadian citizen is influenced by the life-styles, dress, and manners of those individuals living across the border to the south.

The argument that increased border crossings from one country to another may be the result of growing cultural distinctness, rather than the source of growing homogeneity, is interesting because it would seem to contradict the familiar argument made at least since the time of Marco Polo that visitors carry cultural baggage. A nation cannot become more culturally distinct and less so at the same time. But upon closer examination, are these two arguments at odds? They would not seem to be at odds if the cultural influence of visitors is small. Alternatively, they are not at odds if visitors respond less to cultural "distinctness," that is, autonomy, than to more generalized attractiveness or affinity. Indeed, inasmuch as visitors travel for a multitude of reasons, including business, they may find cultural familiarity more appealing than cultural diversity. In any case, the analyst cannot have this logic both ways. If border crossings are not increased by increasing cultural distinctness, there is no contradiction to the argument that border crossings are a useful index of foreign cultural influence. Conversely, if visitors transmit very little cultural content, there is likewise no contradiction with the border-crossing index because their direct exposure to foreign cultural distinctness or autonomy has a much different well-spring. While some cultures are becoming more differentiated and others more homogeneous, it is clear also that visitors do carry with them certain influences such as life-style, personal behaviour, buying preferences, speech, and dress. But whether changes in trade and commercial interdependence are responsible for changes in visitor behaviour, and hence the foreign cultural influence contained therein, is an empirical matter. Certainly if U.S. visitors to Canada (relative to the size of the Canadian population) have some cultural impact on Canadians, Canadian visitors

to the United States (relative to the size of the U.S. population) are likely to have a corresponding and proportionate impact in the opposite direction. Is this not what the presence of ice hockey in the United States, and baseball in Canada, implies?

Together these three indexes, the degree to which Canadian book publishing is indigenous, the education of Canadian graduate students in the United States, and the number of border crossings from the United States into Canada, all capture different aspects of the extent to which Canadian culture is more or less influenced by that of the United States. While much further research is necessary to achieve conclusiveness, the indicators used here have a conceptual basis in theory, contain substantive and temporal scope, and were reliably collected. The findings therefore ought not to be dismissed without taking these considerations into account.

We turn now to an examination of the empirical findings regarding the major proposition and the two subordinate hypotheses concerning political and cultural autonomy.

Note

1. This statistic is relevant especially if this percentage were high historically.

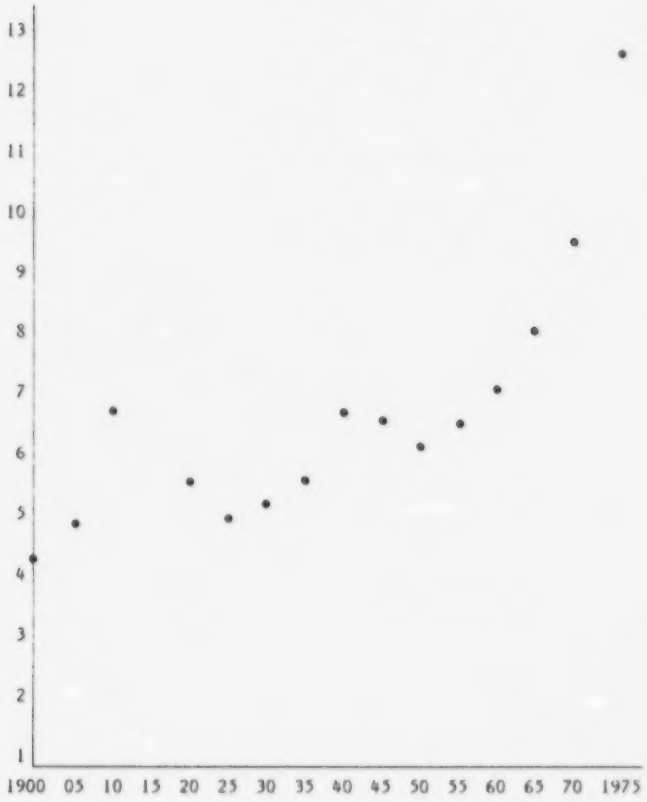
Chapter 5
FINDINGS

Canadian Relative Capability

Returning to the discussion of the capacity of Canada to exert political autonomy, we recall that political capability underlies this capacity. The major proposition asserted above was that Canadian political capability relative to the United States had not appreciably increased in the twentieth century, and indeed might have decreased, echoing assumptions underpinning the economic nationalist argument. Figure 1 points to the fallacy in this argument and the rejection of the proposition. Since 1900, Canadian capability relative to the United States has increased rather steadily, with pronounced gains occurring after 1945 and with the largest gains occurring in the most recent decade.

Two small bumps in the relative capability curve correspond to the First and Second World Wars. The explanation for these perturbations is severalfold, revealing something about the nature of the change in political capability in the two countries. During wartime, Canada's capability had increased faster than that of the United States as Canada mobilized in advance of the United States in each war. In terms of military personnel, and perhaps goods and services as well, Canadian wartime mobilization was greater than that of the United States when considered against the base of its smaller population size. But following each war, Canada reduced its level of mobilization abruptly, thus cancelling some of the apparent short-term gains in capability that it enjoyed. In the longer term, however, the reduction

Figure 1
INDEX OF RELATIVE CAPABILITY (CANADA/UNITED STATES), 1900-1975



in military spending and armed forces size may have contributed to the shifting of resources into more productive sectors. Thus the growth in relative capability observed after 1945 may have been assisted by the earlier prudent use of resources for non-military purposes once the threat of actual war had dissipated.

One should interpret the findings reported in Figure 1 with the usual caution. While relative capability has shifted in favour of Canada in a pronounced way, the absolute difference in the size of the American economy and population compared with that of Canada is still very great. Moreover, although the temptation may be irresistible to extrapolate these curves forward to determine a point where the two countries reach approximately equal bargaining terms, much error is likely to be involved in such forecasts. Further, the amplitude and periodicity of the relative capability curve could vary considerably depending upon conditions affecting the political and economic evolution of both countries. In any case, this point of approximate bargaining equality in political capability, if it takes place at all, is still well in the future. More central to this discussion is that relative capability is evolving rapidly and that the changes appear to be occurring rather strongly in favour of Canada, in contrast to the assumptions made by the economic nationalist argument and more congruent with the sage observations of a political analyst like the late Prime Minister Louis St. Laurent.

Since the aggregate curve is relative, the very rapid increase in Canadian capability proportionately results from change in both the American and the Canadian growth patterns. In the last decade, American growth in relative capability has peaked and perhaps begun to decline slightly relative to the system of major powers. Canadian political capability, on the other hand, has entered a phase of very rapid growth epitomized perhaps by energy production but also shared by other facets of the economy.

Change that is this rapid, in relative capability, cannot continue forever. Even if the comparative outlook continues to favour Canada, in energy terms and in terms of the magnitude of desired immigration and capital supply, for example, Canadian growth in capability relative

to the United States will begin at some point to slow. Beyond this inflection point, growth in relative capability will continue, but at a somewhat slower pace. As economists describe this development, the phase of "diminishing marginal returns" will have set in. Based on the performance of the last decade, however, the change in Canadian capability relative to the United States has been extraordinarily impressive.

Impact of Commercial and Trade Interdependence on Relative Capability

According to our first hypothesis, and based on the economic nationalist thesis, Canadian interdependence with the United States is responsible for constraints on the capacity to generate political autonomy, that is, upon the growth of relative capability. This hypothesis asserts that interdependence with the United States hinders the ascendancy of Canada as a major power in the global system.

The four independent variables reported in the matrix of bivariate correlation coefficients (Table 2) are an index of interdependence. Canadian capability relative to the United States for the period 1900-1975 is treated as a dependent variable.

Based on this preliminary evidence, the findings support rejection of the hypothesis. All of the intercorrelations with relative capability carry a positive sign indicating that Canadian relative capability increases with the increase in the variables we have treated as independent. Multicollinearity among the export, import, direct investment, and portfolio investment variables, however, precludes drawing an immediate conclusion about which variables have the strongest impact on relative capability. Since each of these so-called independent variables appears to explain from 15 to some 45 per cent of the variance in relative capability, however, it is not likely that any one variable is completely spurious in the overall explanation of growth in relative capability. Large vacillations in value, nevertheless, may occur.

From a theoretical standpoint, the comparative significance of the two variables—the percentage of total Canadian exports accounted

Table 2

BIVARIATE INTERCORRELATION MATRIX OF CANADIAN RELATIVE CAPABILITY AND FOUR VARIABLES OF TRADE AND COMMERCIAL INTERDEPENDENCE

	RC	EX	IM	DFI	PFI
Relative Capability of Canada to U.S. (RC)	1.0	.69	.39	.43	.66
U.S. Share of Canadian Exports (EX)		1.0	.43	.62	.81
Share of Canadian Imports coming from U.S. (IM)			1.0	.54	.56
Percentage of Direct Foreign Investment in Canada that is American (DFI)				1.0	.92
Percentage of Portfolio Investment in Canada that is American (PFI)					1.0

Note: The dotted line highlights the correlations of the dependent variable (Canadian Relative Capability) with the four independent variables.

for by the United States versus the percentage of Canadian direct foreign investment accounted for by the United States—is of considerable interest. We attempt to explore this relationship by making two further assumptions about the possible impact of U.S. direct foreign investment on relative capability. First, we consider a model in which we assume that direct foreign investment has a kind of multiplier effect on relative capability with earnings equal to 10 per cent of the gross investment retained and compounded every five years (about a 2 per cent annual increase). Since foreign investors in Canada are known to "plough back" earnings at a fairly high annual rate, this assumption regarding retention and compounding seems plausible. Levels of intercorrelation are also sufficiently low between this set of independent variables to allow the test. According to this "multiplier" assumption and the regression results (Table 3), direct foreign investment seems at least as important, and is perhaps more important, than Canadian exports to the United States as a source of growth in relative capability.

Secondly, we consider a model in which the percentage of Canadian foreign investment accounted for by the United States is lagged by five years because the causal effect upon relative capability may require time for capital to percolate through the economy and the society. For example, the impact on population growth and urbanization is not likely to be very immediate although the impact may be very real. The plausibility of this temporal assumption seems borne out in the regression results in Table 4. The variance explained increases appreciably and the F-test is more significant statistically. Levels of autocorrelation revealed by a Durbin-Watson statistic not significantly greater than one suggest, however, some caution in our judgements. But whether or not the percentage of direct foreign investment from the United States accounts for this much variance in relative capability, such investment does seem relevant to the level of this capability. Moreover, the lagged effect of the U.S. share of investment on relative capability is certainly evident.

In sum, regardless of the problem of multicollinearity,[1] repeated tests indicate a substantial amount of variance explained in relative

Table 3

MULTIPLE REGRESSION RESULTS OF A RETAINED EARNINGS MULTIPLIER ON CANADIAN RELATIVE CAPABILITY

$RC_C = .22\ EX - .03\ IM + .58\ DFI_{Ret.}$

Adjusted $R^2 = .48$

$F = 5.5$

Legends

RC_C:	Capability of Canada relative to the United States
EX:	U.S. share of Canadian exports
IM:	Share of Canadian imports coming from the United States
DFI:	Percentage of direct foreign investment in Canada that is American
Ret.:	Incorporates about a 2 per cent annual return on direct foreign investment by applying a 10 per cent compound interest formula to the five-year data scores.

Table 4

MULTIPLE REGRESSION RESULTS
OF COMMERCIAL INTERDEPENDENCE ON
CANADIAN RELATIVE CAPABILITY EMPLOYING A LAG

$RC_C = -.03\ EX - .02\ IM + .93\ DFI_{Lag}$

Adjusted $R^2 = .64$

$F = 9.9$

Legends

DFI_{Lag}: Data on direct foreign investments lagged five years

See legends of Table 3 for other symbols.

capability. Since multicollinearity may affect the value of the Beta-coefficients but is not likely to affect the size of the R^2, we can argue, with some confidence, that the share of direct foreign investment that comes from the United States as well as the U.S. share of portfolio investment (which is highly intercorrelated with the former) have contributed to the rising levels of Canadian relative capability in the twentieth century. Undoubtedly trade with the United States, especially the export of goods and services, has been likewise very significant. The actual mix of contributions in terms of relative importance is very difficult to unravel statistically. On the other hand, the assumption sometimes made by the economic nationalist position that the share of U.S. direct investment in particular is irrelevant to growth of Canadian power, or actually hostile to that growth, seems, on the basis of these results, to require some rethinking.

Several considerations, none the less, urge caution in the interpretation of these findings. First, although a less cautious grouping of the observation points, such as for an annual basis instead of at five-year intervals, would undoubtedly improve the variance explained, possible autocorrelation may reduce that variance since the Durbin-Watson statistic reported for this equation is not significantly greater than one.[2] Secondly, interpretation of the results should not conceal the possibility that the growth of Canadian power could historically have followed a different path. A different set of growth objectives using alternate institutions might have achieved the same increase in Canadian relative capability without reliance on foreign investment either of the direct or portfolio type. Similarly, a different set of economic conditions and a different societal orientation toward risk preferences might have successfully stressed portfolio over direct investment.

What these results do demonstrate is that something would have been essential as a substitute for the very positive impact of the supply of foreign capital by American investors. Based on actual historical experience, these results also suggest that Canadian trade with the United States would not have been a perfect substitute for foreign investment.

Thirdly, and this qualification flows from the one indicated above, what does growth in relative capability mean if part of that capability is owned by individual firms and investors in the country with which the relative comparisons are being made? Does this not undermine the genuineness of the autonomy that is supposed to flow from capability? To properly address this query, one must note several things. The ratio of foreign debt and ownership to the gross domestic product has declined for Canada since 1900. Moreover, Canada in the last decade in particular has become an important foreign investor and lender with much of this investment and lending moving in the opposite direction, namely toward the United States (Dunn, 1973). But even if the foregoing were not true, the Canadian government has sovereign control over all investment activity inside its borders. The rate of investment activity can be slowed, reversed, or further regulated. Industries sensitive to national security or experiencing unusually high rents are likely to experience such regulation or have already become the object of additional investment control. Finally, in strict political terms at the level of the polity, foreign investment makes a government a hostage as much as it creates leverage abroad. Once capital is translated into physical assets abroad, these assets are subject to the laws and restrictions of the country in which they are located. There is no effective way to translate foreign ownership by the private sector into public power on the part of the investor country even through so-called extraterritoriality; any sustained effort to do so is likely to lead to an eventual loss of those assets or to some other form of retaliation. Hence, for practical purposes, the growth of Canadian relative capability led by infusions of U.S. capital, and stimulated by accelerator and multiplier effects, is as genuine and usable as if that capital were obtained indigenously or from elsewhere abroad. The important thing from a policy perspective is that this capital is neither wasted nor used in such a fashion as to hinder the growth of Canadian relative capability. Indeed the converse argument has already been heard in the United States that the U.S. capital abroad ought to be stopped because it has contributed to a decline in U.S. relative capability (Gilpin, 1975).

Fourthly, we are examining the growth of Canadian relative capability and capability as an index of potential power rather than actualized power. These results say nothing about how the government has chosen to use this power or whether it should opt to assert a more distinctive foreign policy stance since increasingly it has obtained the capacity to do so. What the results do indicate is that relative to the United States (and certainly relative to the system of states as a whole), Canada is much more powerful today than it was in 1960. In spite of commercial interdependence with the United States (or perhaps in part because of this interdependence), Canada has enjoyed change in its position of political and economic capability disproportionate to that of the United States.

In sum, Canada appears far stronger relative to the United States as we approach the end of the twentieth century (Stairs, 1974) than it did at the beginning. Large disparities in absolute size continue to exist. But change in relative capability clearly favours Canada. More than this, elements of commercial and financial interaction with the United States seem to underlie and reinforce this trend. Although isolation of individual effects is analytically difficult, all of the individual components of interdependence probably contribute to the trend—Canadian exports to the United States, Canadian imports from the United States, and U.S. direct and portfolio investment. The most fundamental observation is that trade and commercial interdependence with the United States seem to have catalysed the ascendancy of Canada (Thomson, 1973; Lyon, 1975) on the world stage.

Impact of Commercial and Trade Interdependence on Cultural Autonomy

Turning to the second hypothesis concerning interdependence and cultural autonomy, the hypothesis asserts no positive association between interdependence and cultural autonomy. To review the argument briefly, cultural autonomy was seen as the outgrowth of factors having little to do with external commercial relations. Culture was viewed as essentially a separate theoretical dimension from external trade or finance. According to this view, culture originates in

the creative intellectual and social well-springs of a people. It is shaped by domestic historical traditions and linguistic preferences and is therefore comparatively impervious to the effect of commercial and trade interdependence because, for example, the variables mediating between culture and interdependence, such as border crossings, indigenous Canadian book publication, and graduate student educational preference, all operate quite independently of interdependence itself.

Employing multiple regression analysis in the first test, with the annual number of border crossings from the United States from 1965 to 1975 (excluding, because of gasoline price differentials, the later years of inflated activity) as the dependent variable, the results are quite interesting.[3] The same four "independent" variables of commercial interdependence account for some 92 per cent of the border crossing activity at a Durbin-Watson statistic of 1.9, indicating comparatively little autocorrelation. This evidence suggests rather strongly that we cannot reject the hypothesis of no association between trade and commercial interaction and the dependent variable. Direct foreign investment carries a negative sign suggesting that its effect might oppose that of the other independent variables. However, because of multicollinearity, this observation is not necessarily reliable. Further, when we examine the results of simple linear regression for the impact of direct foreign investment alone on U.S. border crossings, our scepticism seems less justified (Table 3). The share of direct foreign investment accounted for by the United States appears inversely associated with the frequency of border crossings from the United States. Apparently trade and portfolio investment involve a greater flow of human contact and interaction.

In general this first test seems to indicate that interdependence does have an impact on the physical behaviour of Americans, which in turn presumably carries with it cultural content. At least in this instance, the argument that border crossings somehow operate independently of the U.S. share of goods and services and capital appears incorrect. The fears of those who assert that high levels of commercial interdependence may have a negative impact on Canadian cultural values tend to be supported by this analysis.

Table 5

REGRESSION RESULTS FOR THE IMPACT OF DIRECT FOREIGN INVESTMENT ON U.S. BORDER CROSSINGS

BC = -.96 DFI + 109

R = -.72

R^2 = .53

Legends

BC: Number of border crossings from the United States into Canada.

DFI: Percentage of direct foreign investment in Canada that is American.

In the second test, three separate linear regressions are employed for the following variables:

- Percentage of Canadian exports to the United States
- Percentage of Canadian imports from the United States
- Percentage of direct foreign investment in Canada that is American.

The dependent variable is the ratio of the number of Canadian graduate students educated in the United States to the total number of Canadian students currently enrolled in universities. This ratio enables us to control for the normal increase in the size of the university student population. The first thing to be noted about the dependent variable is that is has declined over the interval examined. Thus, whether or not the ratio is abnormally high for a country as modern and industrialized as Canada, the empirical fact is that the ratio has been declining in recent years; that is, fewer students are being educated abroad. This decline, in turn, suggests less of a foreign cultural impact on the Canadian graduate student population as a whole. When we consider the impact of the U.S. share of Canadian exports (EX), the share of Canadian imports from the United States (IM), and the U.S. proportion of direct foreign investment (DFI), we find somewhat different results than in the prior test (Table 6). Each of these equations incorporates a two-year lag for the dependent variable, thus enabling the process of commercial interdependence to attain a fuller impact on Canadian educational patterns. For reasons of data availability, only the period after 1966 was examined. Hence, although the results are current, they do not encompass a very long interval of historical experience. Nor can we eliminate entirely the effects of multicollinearity and autocorrelation. Despite these confounding problems, the finds reveal at least the direction of relationships and something about their strength.

The share of Canadian exports that go to the United States appears to be unrelated to graduate student educational patterns. However, both the share of Canadian imports coming from the United States and the share of direct foreign investment in Canada that is American show an association with the preference for foreign

Table 6

REGRESSION RESULTS FOR THE IMPACT OF THREE VARIABLES OF COMMERCIAL INTERDEPENDENCE ON CANADIAN STUDENT EDUCATIONAL PREFERENCE

GSR = .02 EX + 1.6

R = .07

R^2 > 1

GSR = .21 IM - 11.3

R = .78

R^2 = 61

GSR = .73 DFI - 56

R = .84

R^2 = 70

Legends

GSR: Graduate student ratio, namely, the ratio of the number of Canadian graduate students educated in the United States to the total number of Canadian students currently enrolled in universities.

See legends of Table 3 for other symbols.

education. Intuitively this result is quite plausible. Both of these latter commercial interdependence variables possess a greater demonstration effect than export behaviour. The process of importation and foreign investment probably transfers greater cultural content domestically than the activity of exporting goods and services abroad.

We must note, however, that the dependent variable showed a decline in this period, a decline that paralleled the levelling off of two of the three indicators of trade and commercial interdependence. Thus, while graduate student preferences for a foreign education may be influenced by the cultural content associated with foreign goods and foreign investment activity inside Canada, both trends have stabilized or declined somewhat in recent years. According to this evidence, a further decline in these aspects of interdependence ought to be accompanied by reduced interest in foreign education as well or, conversely, by an increased interest in graduate education at a Canadian university.

In sum, this test yields somewhat contradictory results concerning the hypothesis. On the basis of Canadian exports to the United States, the null hypothesis of no positive association can be confirmed. On the other hand, on the basis of the other two indicators of trade and commercial interdependence, the null hypothesis must be rejected. We conclude that some aspects of commercial interdependence have an influence on Canadian educational behaviour. As this interdependence has lessened most recently, however, so has the preference for education abroad in the United States. This trend is rather short term and must be qualified by a variety of factors. Still there is some evidence for the influence of interdependence on cultural activity, even as the level of interdependence itself appears to have paled or declined marginally.

Turning to the last test of the cultural hypothesis, using book publishing as the dependent variable, we examined a brief period after 1968 when data were available on book imports from the United States. A lag was again introduced, this time of five years, for the influence of trade and commercial interdependence to attain its full effect. Price data were deflated by the consumer price index. All of the

qualifications noted in the prior analysis apply here as well. Using the same three independent variables and the annual amount spent on book imports from the United States as the dependent variable, we obtained the results reported in Table 7. In all three cases of this test, we are unable to reject the hypothesis of no association. In other words, there is no evidence that interdependence contributes to U.S. book purchases by Canadians during this period or that the cultural intrusion which these purchases imply is specifically intensified by interdependence with the United States. Other factors such as geographic proximity, general similarity of reading habits in the two countries, or relative cost may explain the infusion of foreign printed matter into Canada. But our broad indexes of interdependence do not appear to provide such explanation.

Reviewing these findings on the overall impact of interdependence on Canadian cultural autonomy, the results seem to be quite mixed. The general hypothesis that interdependence restricts cultural autonomy probably is sustained for border crossings and, in a complex way, for graduate student educational behaviour (a marginal decline in interdependence was reflected in a marginal decline in the dependent variable itself, however). But during the recent period no support for the hypothesis was found in the area of book publishing.

Thus we conclude that the impact of trade and commercial interdependence on Canadian cultural autonomy is genuine but probably quite selective. It is selective first in terms of which aspects of economic interdependence affect Canadian society in the same fashion or in the same way in different periods. It is also selective because interdependence does not seem to affect all cultural variables in the same way. Book publishing, for example, whatever the cause of the influx of outside written materials into Canada, does not seem to reveal the same susceptibility to the general influence of trade and commercial interdependence as educational preference. It is selective, finally, because the historical interval is a critical factor. The nineteenth century experience wherein British trade was dominant was quite different from the twentieth century when this presence was on the wane; the most recent decade wherein some aspects of

Table 7

REGRESSION RESULTS FOR THE IMPACT OF COMMERCIAL INTERDEPENDENCE ON U.S. BOOK IMPORTS

$BI = -.05\ EX + 75$

$R = -.86$

$R^2 = 74$

$BI = -.05\ IM + 78$

$R = -.95$

$R^2 = 90$

$BI = -.01\ DFI + 82$

$R = -.52$

$R^2 = 27$

Legends

BI: Annual amount spent on book imports from the United States (data deflated by the consumer price index and corrected for exchange-rate variation).

See legends of Table 3 for other symbols.

interdependence have begun to decline marginally is again different from the early post-war period when interdependence with the United States was expanding rapidly.

Our tentative empirical finding that some damage to Canadian cultural autonomy has occurred because of trade and commercial interdependence must thus be examined against this background of interpretive caution. The analyst must constantly ask which segments of interdependence are involved and which aspects of culture and society are supposedly affected. These empirical findings suggest that the impact of interdependence upon society is neither obvious nor universal.

Notes

1. The multicollinearity is somewhat countered by the proper selection of variables in the latter models.
2. On balance, however, a more liberal use of the available data combined with a more extensive effort to adjust for possible autocorrelation would yield approximately similar results although degrees of freedom would be added.
3. This is despite the high amounts of multicollinearity that render the individual beta-coefficients unstable.

Chapter 6
CONCLUSIONS

This study enables us to draw three sets of conclusions about Canadian-American relations in the twentieth century. First, Canadian capability relative to that of the United States has been on the upswing for most of the century (Cuff and Granatstein, 1975) and has been strikingly in the ascendancy during the last decade. This relative change should not blind analysts to the fact that large absolute disparities in terms of population and economic size, for example, continue to exist between the two countries (Fox, 1977). But the growth and relative Canadian power in the late twentieth century is an empirical reality that bears much greater attention than many historians and social scientists have given it.

Secondly, most of the components of Canadian-American trade and commercial interdependence have had a positive impact upon the growth of this relative capability. An active external sector has aided the rise of Canada on the world stage. While, for statistical reasons, judgements are very difficult as to exactly which components of interdependence have been most catalytic with respect to the growth in Canadian relative capability, the indicators of interdependence, taken as a bundle or cluster, have collectively fuelled the growth of Canadian power and status in the late twentieth century, much as other factors had fuelled the rise of the United States as a significant political actor in the late nineteenth century.

Thirdly, there is some empirical evidence, although by no means without counter-example, that trade and commercial interdependence

has had a negative impact on Canadian cultural autonomy, and perhaps as well on the Canadian self-image of its own identity in a number of ways. This impact, however, has been very selective. Still, interdependence with the United States has probably transferred a significant amount of cultural content in specific sectors through intermediary societal variables. Commercial and trade interdependence can then to some extent be held responsible for the shaping of Canadian preferences and behaviour in certain areas of education, cultural expression, and life-style.

In an overall sense, this analysis is of interest because it demonstrates that a familiar assertion regarding Canadian political and economic development is only partially correct. The assertion referred to is that Canada has opted for a development strategy emphasizing wealth at the cost of size. If the findings in this study are valid, they suggest that Canada's trade and investment policies have contributed very much to the growth of size as well. When considered in the comparative terms of capability relative to the United States, the impact of these policies has been to provide the foundation for the rise of Canadian power, especially in the post-war era, and for Canada's entry during peacetime into the circle of leading systemic actors.

Chapter 7
POLICY IMPLICATIONS

For a society as for an individual, very few policy choices are unmitigatedly favourable. Canada has chosen to employ commercial and trade interdependence with the United States as the path to rapid growth in relative capability. Numerous indicators of the success of this strategy such as membership in the "Summit Club" of seven non-communist, advanced industrial nations reinforce the logic of the empirical findings presented in this study. But regardless of the success of this strategy in political and economic terms, certain costs may have accompanied the strategy with respect to the loss of some Canadian cultural, economic, and environmental autonomy (Munton, 1980-81; Scott, 1974; Gotlieb and Dalfen, 1973).

From a policy perspective, however, the benefits of the strategy may outweigh its costs, especially if negative trade-offs are made explicit and are offset. By taking advantage of the natural efficiencies in the interdependence relationship, Canada is able to maximize growth in relative capability. By then transferring through appropriate tax and spending policies some of the benefits of these efficiencies to the cultural sector, the possible loss of certain aspects of cultural autonomy can be offset. By providing subsidies to such activities as university education, scientific research, film-making, and indigenous publications, a renaissance of cultural output and development is possible. This transfer of wealth to the cultural sector has been Canadian government policy for a long time, and in such areas as film-making the policy has already achieved impressive results.

For maximum impact, such a policy of transferring benefits from one sector, where efficiencies are great, to another sector, where costs have accrued, is a policy that can be focused perhaps even more sharply. First, one must identify those areas where damage to cultural autonomy has actually occurred. Applying the right medicine to the wrong illness, or to a false illness, will scarcely yield the proper results. Secondly, one must focus upon those aspects of public policy where economies of scale may exist. As cultural output increases, for example, it is likely to reach a kind of critical mass and become self-sustaining regardless of the existence of a large, foreign, cultural presence abroad. The initial task in some instances has been the reversal of a trend toward external dependency. Small increments of support may achieve the greatest consequence, however, after such a trend is reversed and cultural output becomes visible and highly productive.

Thirdly, one must avoid the "infant industry" dilemma where society is not only protected but also where this very protection from external competition becomes the obstacle to further growth and maturity. Cultural development is different from industrial development, however, in that it may never become "self-sustaining" in a financial sense. Nor should we expect it to be. But what the infant industry analogy reminds us is that support for cultural output must lead to vitality, growth, and societal confidence. Projects, or spheres of human endeavour, that do not eventually achieve this should not continue to receive funding. Moreover, assuming that "progress" can be appropriately defined, funding ought to contain incentive arrangements whereby progress is rewarded and lack of additional progress, or of promise, is penalized.

An alternative strategy is to try to safeguard cultural autonomy by consciously and unilaterally cutting back on interdependence. The difficulty with this strategy is twofold. First, it runs the danger of sacrificing gains in per capita wealth and growth of relative capability that cannot easily be achieved by alternative means. Secondly, intentional restrictions on interdependence may not assist in reversing the loss of cultural autonomy in a number of instances, as the empirical

findings in this study underline, because the causation associated with this loss of cultural autonomy in these instances may have little or nothing to do with interdependence. This purposeful reduction in interdependence may not increase cultural autonomy in many areas at all.

The alternative strategy of purposeful reduction of commercial interdependence, rather than the management of commercial interdependence, for example, also overlooks the fact that some components of commercial interdependence such as the percentage of U.S. direct foreign investment are already marginally in decline. This decline has emerged primarily for natural economic reasons on both sides of the border and has not seemingly hindered the further growth of Canadian relative capability.

In sum, the strategy of capturing the efficiencies of trade and commercial interdependence while offsetting and reversing, where necessary, attendant problems of cultural autonomy appears responsible and prudent (Kirton, 1978). It recognizes a fundamental political reality; the greatest single stimulus perhaps to cultural autonomy is that brought about by increasing bargaining equality (Holmes, 1970). This equality is emerging through the changing dynamics of relative capability. It is also occurring more rapidly, our findings suggest, than many observers have come to recognize. As Sir Wilfrid Laurier is said to have asserted regarding the nascent emergence of power, and as our findings support, the nineteenth century may have been the century of the United States, but the twentieth century will be the century of Canada.

Appendix
A THEORETICAL EXAMINATION OF CANADIAN NATIONALISM

As long as the nation-state remains the basic systematic unit, the "atom" of the world system, nationalism will remain integral to societal behaviour (Kohn, 1946). Without the nation-state, the modern world system would collapse. Without nationalism, the nation-state would not exist. Nationalism is more than a "condition of mind" on the part of the individual citizens. It is a structural necessity of the nation-state for it provides the internal political bonds that hold each atom of the world system together. Composed of a territory, a population, a governing body, legal sovereignty, and a sense of being, the nation-state is at the same time both organismic and contrived. It is a collectivity that varies widely in terms of overall size and in terms of the mix of its components. Nationalism provides the political cement that allows such a widely varying entity as the nation-state to survive in a competitive environment.

Canadian nationalism can be analysed along a number of theoretical lines that have a comparative focus (Deutsch and Foltz, 1963; Zolberg, 1978; Wriggins, 1961.) We will assess what may be described as modal attributes of Canadian nationalism, ignoring for present purposes the few advocates of more extreme positions that are uncharacteristic of the mainstream of nationalist opinion in Canada at either the élite or the popular levels.

Inward-Looking versus Outward-Looking Nationalism

Canadian nationalism is essentially inward looking and concerned with

overcoming regional and cultural-linguistic rejection of unifying efforts. In general, Canada appears less concerned about projecting an external "nationalist" image abroad than about sustaining this image internally at home. Unlike contemporary West Germany, France, or Spain, for example, Canada seems to focus less upon presenting a single, homogeneous face to the external world. Whereas for the aforementioned states domestic policy has often primarily served the end of external relations, Canadian foreign policy tends to largely serve domestic political purposes.

This particular orientation can be further subdivided into positive nationalism, namely nationalism that attempts to promote federalism through appeals that are intrinsically Canadian, and negative nationalism that promotes unity through rejection of perceived foreign threats to Canadian institutions and values. Negative nationalism is a reaction to the behaviour of other governments and cultures that are perceived to be hostile. On the whole, Canadian nationalism is of the positive type. Historical appeals to the "true North strong and free" and "peace, order, and good government" are of this indigenous variety. On the other hand, a continuing trade of anti-Americanism corresponds to the negative form of nationalism. This negative nationalism is understandably functional and to be expected in situations where the American presence is so visible. Reaction to this presence stimulates collective affinities that can be used to overcome otherwise formidable resistance to federal leadership. One of the ironies of international relations, often observed in alliance behaviour, is that the reaction to a sense of common threat can be a stronger unifying force than the pursuit of internal co-operation. Despite the opportunity for exploitation of the themes of negative nationalism, Canadians have resorted rather infrequently to this powerful, but not easily controlled, technique.

Another conceptual dichotomy in this orientation is between benign nationalism and malignant nationalism. Canadian nationalism is strictly of the benign sort. Manifested as Bonapartism, fascism, or Stalinism, malignant nationalism is strongly ideological and dangerous. Such strains of nationalism, however, have given all nationalism a

Figure 2:
A THEORETICAL TYPOLOGY OF CANADIAN NATIONALISM

pejorative connotation. Malignant nationalism has earned condemnation because it is inconsistent with a liberal world order in which competing forms of nationalism are allowed to conflict without violence or the forceful demise of any particular nationalist variant.

In contrast to the malignant strain, Canadian nationalism is extremely benign, almost self-consciously so. Architects of Canadian unity are meticulous in their avoidance of even a suggestion of malignant rhetoric. Indeed, in its present form and with several small exceptions, Canadian nationalism is very compatible with internationalism, especially that associated with upholding the ideals of the United Nations Charter, with strategic arms control, and with détente. In no sense can Canadian nationalism be viewed in other than the benign terms of constraint and full respect for the sovereignty of other governments abroad.

Synthetic versus Nativistic Nationalism

All nationalism to some extent is contrived. Italy emerged out of the machinations of Piedmont, a small principality in the North, guided by Cavour, and out of the guerilla confrontation led by Mazzini in the region of Naples to the South. Bismark carved Germany out of Central Europe as the other major powers reluctantly looked on. The political conception of an Italy or a Germany was in the main contrived by statesmen and nationalist propagandists. It did not emerge solely out of the consciousness of a single homogeneous culture and language. Yet some nationalist movements are more synthetic, and less nativistic, than others. Canada ranks high on the synthetic end of the continuum. Canadian nationalism is synthetic because it is inherently bi-national in scope. It must respect the rights and freedoms associated with the primary francophone and anglophone cultural groupings as well as those of the individual French-speaking and English-speaking citizen. French-speaking Canadians tend to interpret their citizenship through the communal collective; English-speaking Canadians tend to believe in the individual assertion of citizens rights. Hence a principal task of Canadian nationalism is to bring these two philosophies of association together inside a complex set of overlapping institutions and

administrative procedure.

Moreover, the Canadian synthesis must confront a regional phenomenon whereby some citizens consider themselves Quebecers or "Newfies" first, for instance, and Canadians second. This inverts the normal ranking of affiliations within the nation-state and further weakens the universality of the federalist impulse. While such an inversion of affiliations is not unheard of for regions within otherwise strong federations (for example, for Bavaria or for Texas), the effect of primary regional loyalties must be overcome through inducement or compensation, and perhaps eventually by tradition.

Synthetic nationalism is easier to achieve when the historical genesis of nationalism has been crisis generated rather than when it has been incremental. Nationalism that has been crisis generated has a symbolic starting point, a climactic birth. Sacrifices and strain that accompanied the birth process can foster a type of catharsis that can be relived again and again by subsequent generations regardless of how myth filled and simplistic the characterization is. The "warm glow" of union seems brighter when viewed in terms of the cost that others, to whom one is indebted, have paid. The subsequent bonds of union are tighter when crisis has tested, and perhaps jolted, the equilibrium of union at various points in the history of the nation-state, most notably at its birth.

Incrementalist nationalism, which is what Canada has experienced, is more difficult for the average citizen to appreciate because the change that has occurred is so gradual. Even with hindsight, change is barely visible. Therefore, to some observers it might be considered unimpressive. While continuity may be much more compelling to the humanist and to the social scientist than is the impact of crisis, for the average citizen discontinuity that leads to a favourable outcome may unfortunately appear more striking. Incrementalist nationalism must therefore make use of tools and symbols that crisis-generated nationalism could ignore or, more correctly, that society influenced by crisis-generated nationalism itself inevitably supplies.

A further distinction that affects the synthetic/nativistic

dichotomy is rationalism versus emotionalism. Academics normally laud rationalism and eschew emotionalism. In the field of practical politics, however, emotionalism may be a far more potent instrument of mass motivation than rational argument. In the aftermath of the Nazi experience, emotional politics is often characterized as Plato caricatured democracy, as demagoguery. Emotional appeals can strengthen nationalist sentiment none the less. In the campaign for nation-state unity, Canada has made rather limited use of emotionalism for reasons that are partly cultural. Canadian nationalism rests on essentially rational principles. Indeed, opposition to Canadian national unity in Quebec, for example, has been far more emotional than many of the federal appeals to unity. On the other hand, the Quebec referendum was defeated in part by the rational argumentation of economic cost versus cultural opportunity. Hence even in the Quebec setting, where Québécois nationalist sentiment tended to be quite emotional, rational arguments seemed to be more compelling.

Rationalist approaches to nationalism characterize a stable and mature people. The fact that sovereignty-association could be discussed so calmly and within such explicit limits as to permissible behaviour places Canada within the very highest echelon of civilized polities.

While the rationalist approach may yield something to the more emotional approach in terms of mass appeal and short-term effectiveness, the rationalist approach may eventually establish the firmer foundation for stable and workable union. In any case, for reasons of temperament, tradition, political maturity, or accident, Canadians have by and large opted for the use of reason over emotion in their pursuit of an acceptable federal formula for nation-state unity.

Assimilative versus Integrationist Nationalism

In contrast to the assimilative nationalism of seventeenth-century France or of the contemporary United States, for example, Canadian nationalism is following a model that is integrationist in ethos. By this we mean that the Canadian model permits a high degree of cultural diversity. Citizens living in ethnic communities are expected to speak

both English and French but are not discouraged from retaining their own third languages as well. Montreal, for example, permits provincial support for a larger diversity of ethnic schools than virtually any other modern urban setting. Thus Canadian nationalism does not anticipate that the ethnic and communal "pot" will melt. Complete assimilation of new immigrants to one or other of the dominant cultural groupings may occur, but it is not the norm and it is not expected. In Canada, citizenship does not mean giving up one's cultural or ethnic heritage.

Thus Canadian nationalism is far less homogeneous, and homogenizing, than that of most other polities. Integration is a far more liberal notion than assimilation. But integration is also a far more complex and challenging form of association than assimilation. It requires formal institutionalization of linkages at the proper level. It also necessitates the creation of complex formulae for everything from taxation, through voting rights, to the redistribution of income. Switzerland has followed one variant of the integrationist model. Canada is in the process of evolving another that preserves the rights of individual citizens without sacrificing the prerogatives of the large cultural-linguistic communities or the regionalist preferences of its citizens. Thus in many ways Canadian nationalism is one of the most open and diversified movements of its kind in the contemporary international system.

Centralism versus Pluralism

Within national movements, the degree of concentration of political authority varies widely. Canadian nationalism for the most part rejects the pluralist model of competing interest groups attempting to establish an equilibrium of power wherein each will be represented but in a fluid and ever-changing dynamic. Responsible government instead establishes a hierarchy of claims and representation that is centralized within the party structure and the Prime Minister's Office.

In a comparative sense, Canadian nationalism is both highly centralized in the executive branch at the federal level and highly decentralized because of cleavages between the federal and provincial levels of authority. Thus the primary political tension in Canadian

nationalism not surprisingly emerges in the effort on the part of some political actors to decentralize authority of the federal government over the provinces. Other efforts to foster nation-state unity among democracies have achieved both of these changes by shifting greater amounts of authority to Parliament, a task that would be easier if the provinces were smaller, more numerous, and consequently less powerful regional and cultural spokesmen.

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